

**Implementing
OMB Revised Circular A-123
*How to Get Started***

August 11, 2005

Agenda

- OMB Circular A-123 – How?
- Next Steps
- Key Success Factors
- Wrap-up and Questions

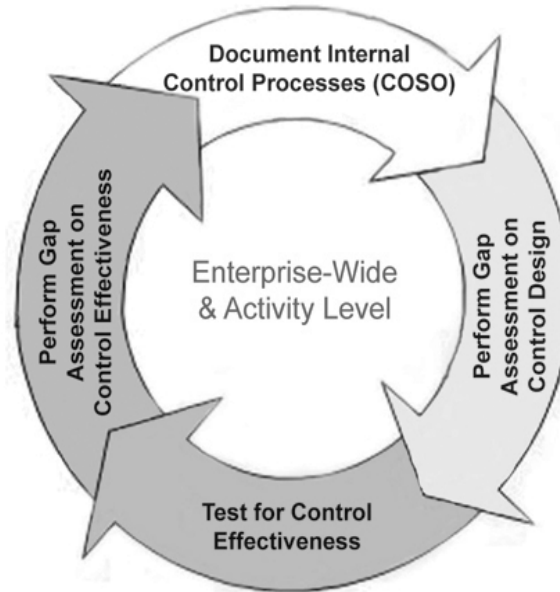
How? An Overview of PwC Approach

Phase One

- **Initiate**
- **Scope and Plan**
- **Educate and Communicate**

~ 3 months

Phase Two



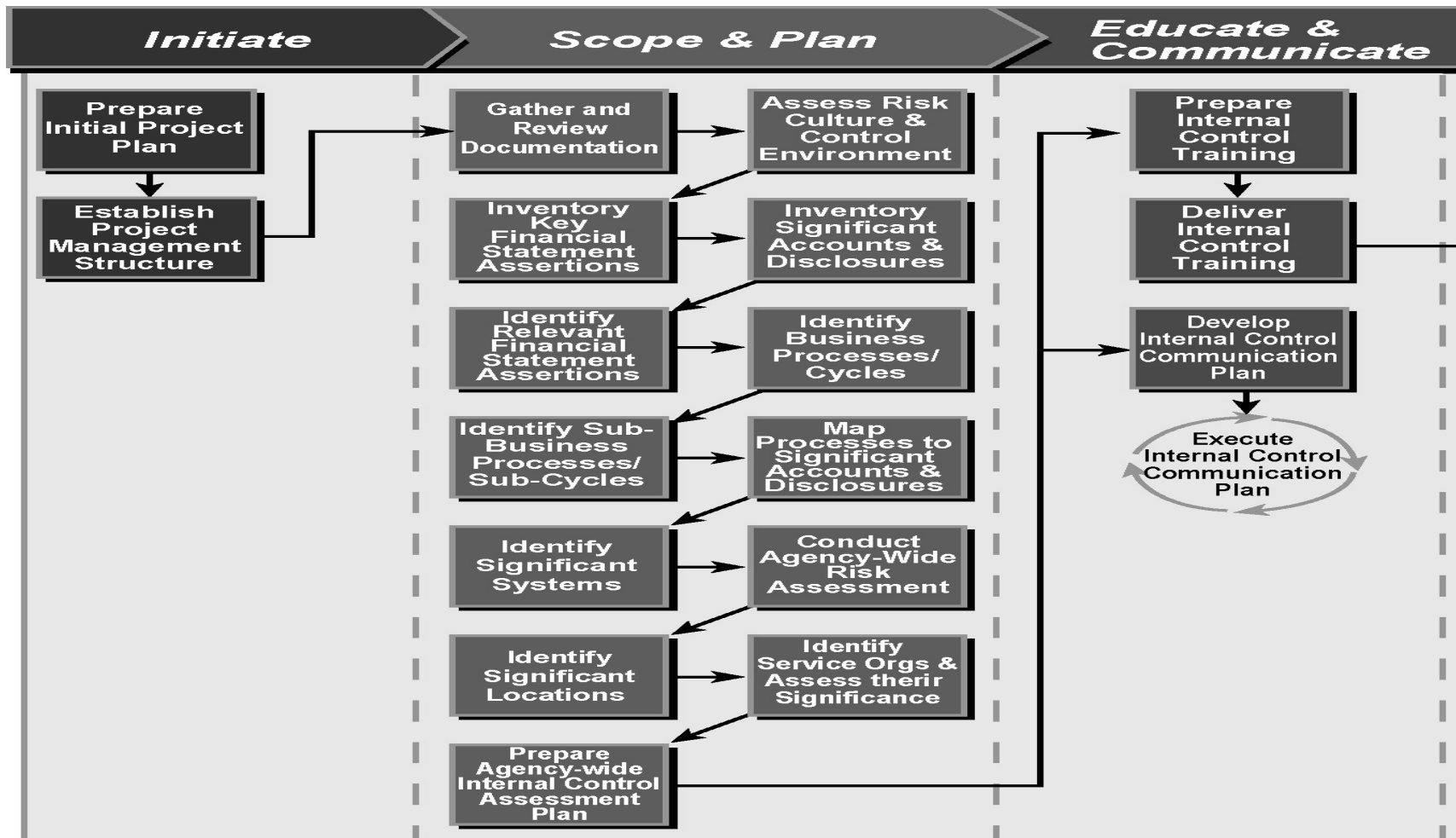
~ 8 - 15 months

Phase Three

- **Remediate**
- **Issue Assertions**
- **Implement Ongoing Assessment and Monitoring Processes**

~ Ongoing

How? Phase One Activities



How? Phase One Activity: Initiate

Prepare Initial Project Plan

- What Is It?
 - ◆ High level scoping and planning
 - ◆ Identifies timeline and key milestones
 - ◆ Defines resource requirements
 - ◆ Enlists support of key stakeholders

How? Phase One Activity: Initiate Prepare Initial Project Plan

■ Define Your Organization:

- ◆ Significant bureaus, locations, systems and cycles
- ◆ Outside service providers
- ◆ Responsible functional management – CFO, CIO, Chief Human Capital Officer, Procurement, etc.
- ◆ Unique compliance requirements
- ◆ Inventory sources of information
 - Ongoing financial management projects (e.g., new systems)
 - Historical approach to FMFIA
 - Other sources (e.g., FISMA, IPFA)
 - Auditors and OIG

How? Phase One Activity: Initiate

Prepare Initial Project Plan

- Set Strategy:
 - ◆ Centralized/decentralized approach
 - Your organizational structure
 - Preserve consistency and control
 - Training needs
 - ◆ Reliance on contractors versus internal staff
 - Knowledge of operations
 - Auditor skill sets
 - Judgment
 - Documentation requirements
 - ◆ Project management responsibility
 - Coordination with FMFIA
 - Cross-functional expertise
 - Project management office

How? Phase One Activity: Initiate

Prepare Initial Project Plan

■ Create Initial Plan and Milestones:

◆ June 30, 2006 effective date

- Use December and March closes to document and assess design
- Most testing expected March - August
- Final assessment and reporting September - October

◆ Planning and scoping

- High level risk assessment
- Materiality
- Set priorities among cycles, systems and processes

◆ Resource requirements

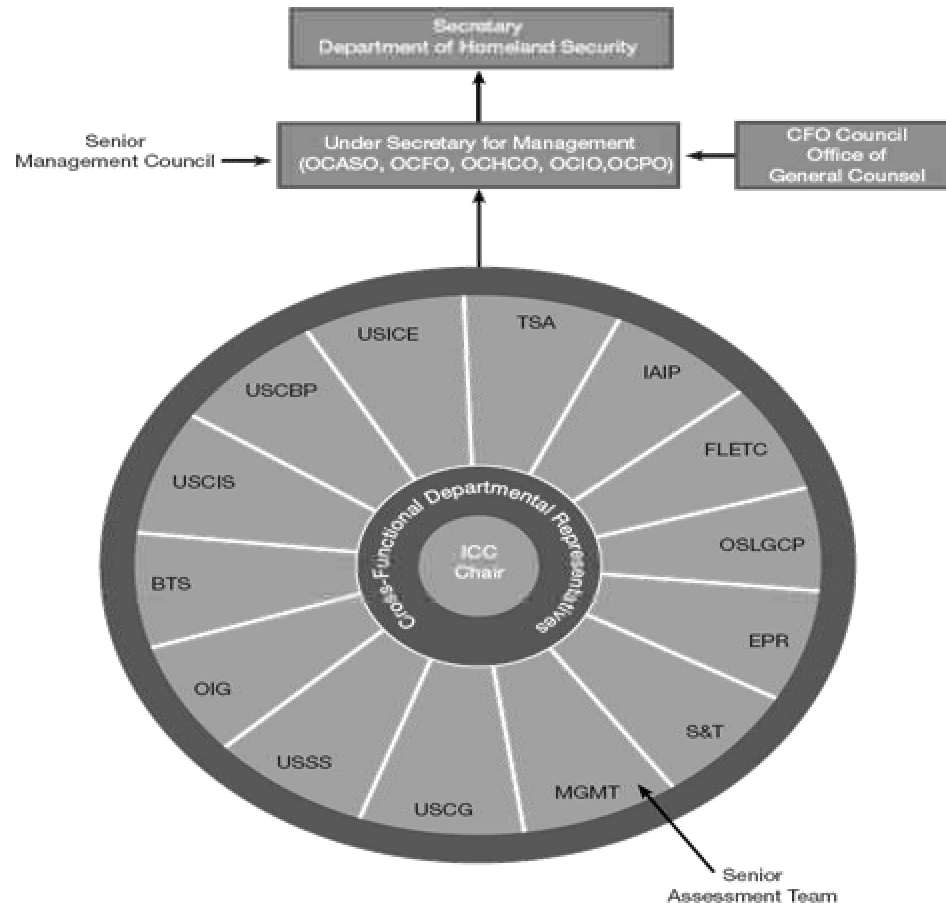
- Department/bureau level
- Functional/specialist resources
- Project management office

How? Phase One Activity: Initiate Establish Project Management Structure

- Project Office
 - ◆ Executive sponsorship
 - ◆ Document management
- Methodologies and Tools
 - ◆ Implementation methodologies
 - ◆ Mapping financial statements to controls
 - ◆ Documenting and assessing controls
- Senior Assessment Team
 - ◆ Component/bureau coverage
 - ◆ Functional representation
 - ◆ IT controls assessments
 - ◆ Special areas (e.g., grants, benefit payments)

How? Phase One Activity: Initiate Establish Project Management Structure

U.S. DEPARTMENT OF HOMELAND SECURITY
INTERNAL CONTROL COMMITTEE STRUCTURE



How? Phase One Activity: Scoping and Planning

Conduct Agency-Wide Risk Assessment

- Serves as an Initial Estimate for Scoping the Nature, Timing, and Extent of Internal Control Testing That Will Need to Be Performed for Each Process Area. Activities Include:
 - ◆ Designing a risk assessment model to collect and score risk information
 - ◆ Identifying risk factors to be evaluated for each business process such as:
 - Impact on the financial statements
 - Complexity of the process
 - Volume of transactions
 - External visibility/political sensitivity
 - Location/site
 - Program
 - Materiality
 - ◆ Collecting and reviewing risk related background information on the business process
 - ◆ Assessing the risk level as high, medium, or low for each risk factor in each business process
 - ◆ Assigning a priority level for each business process to be used in tailoring the extent of testing of relevant assertions that will be required

How? Phase One Activity: Scoping and Planning

Conduct Agency-Wide Risk Assessment

■ Example: Cross-section of a PwC Risk Assessment Evaluation Template

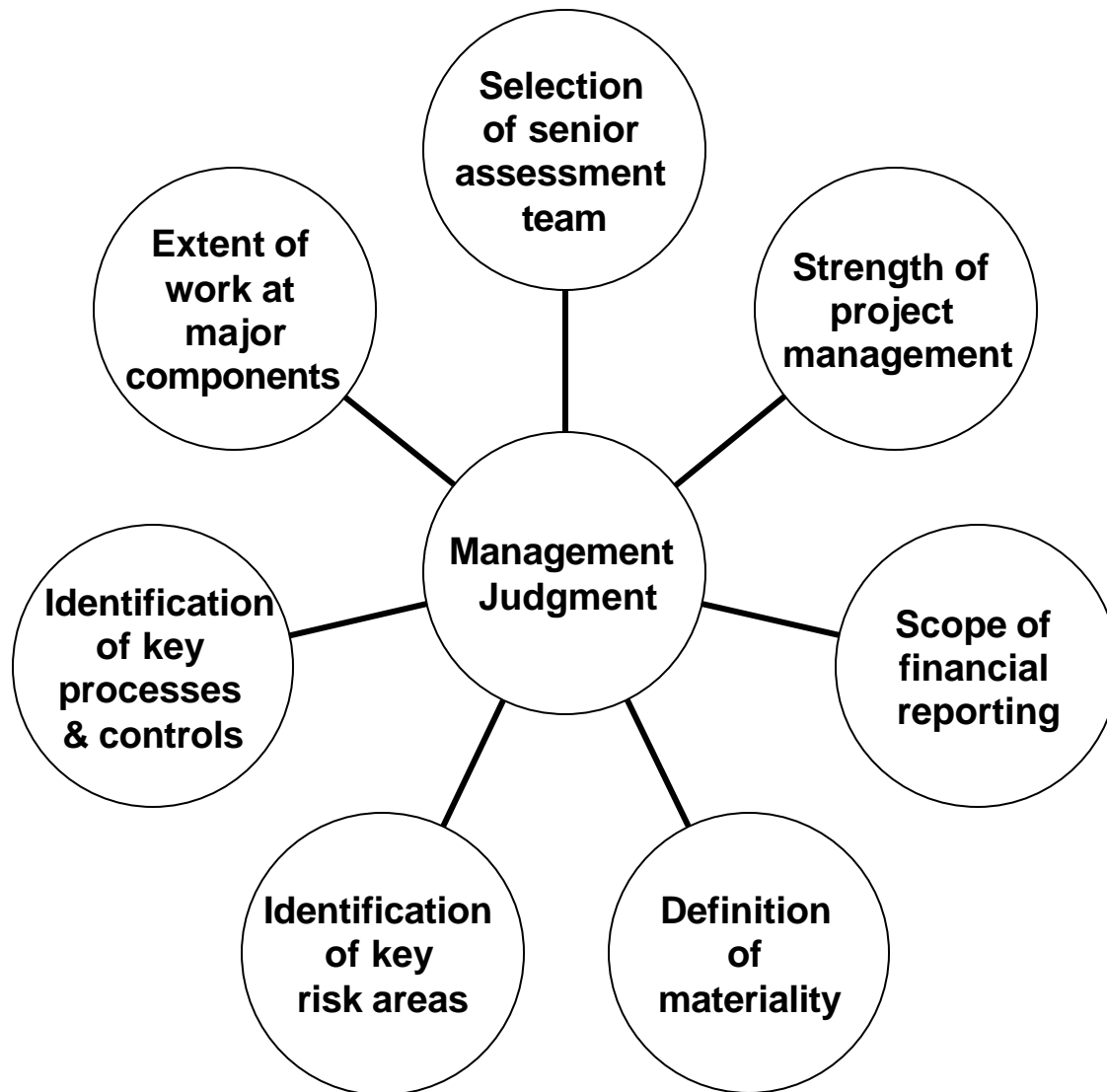
Risk Assessment - US						
	Impact on Financial Statements	Complexity of Process	Volume of Transaction	Centralization of Process	Inherent Risk of Process	Priority A = H, B = M, C = L
Purchasing & Payables						
Vendor Maintenance	Low	Medium	Medium	High	High	B
Requisitions	High	Medium	High	High	High	A
Purchase Orders	High	Medium	High	High	High	A
Goods Receipting	Medium	Low	Medium	High	Medium	B
Invoice Processing	High	Low	High	High	Medium	B
Cash Disbursements	High	Low	High	High	High	A



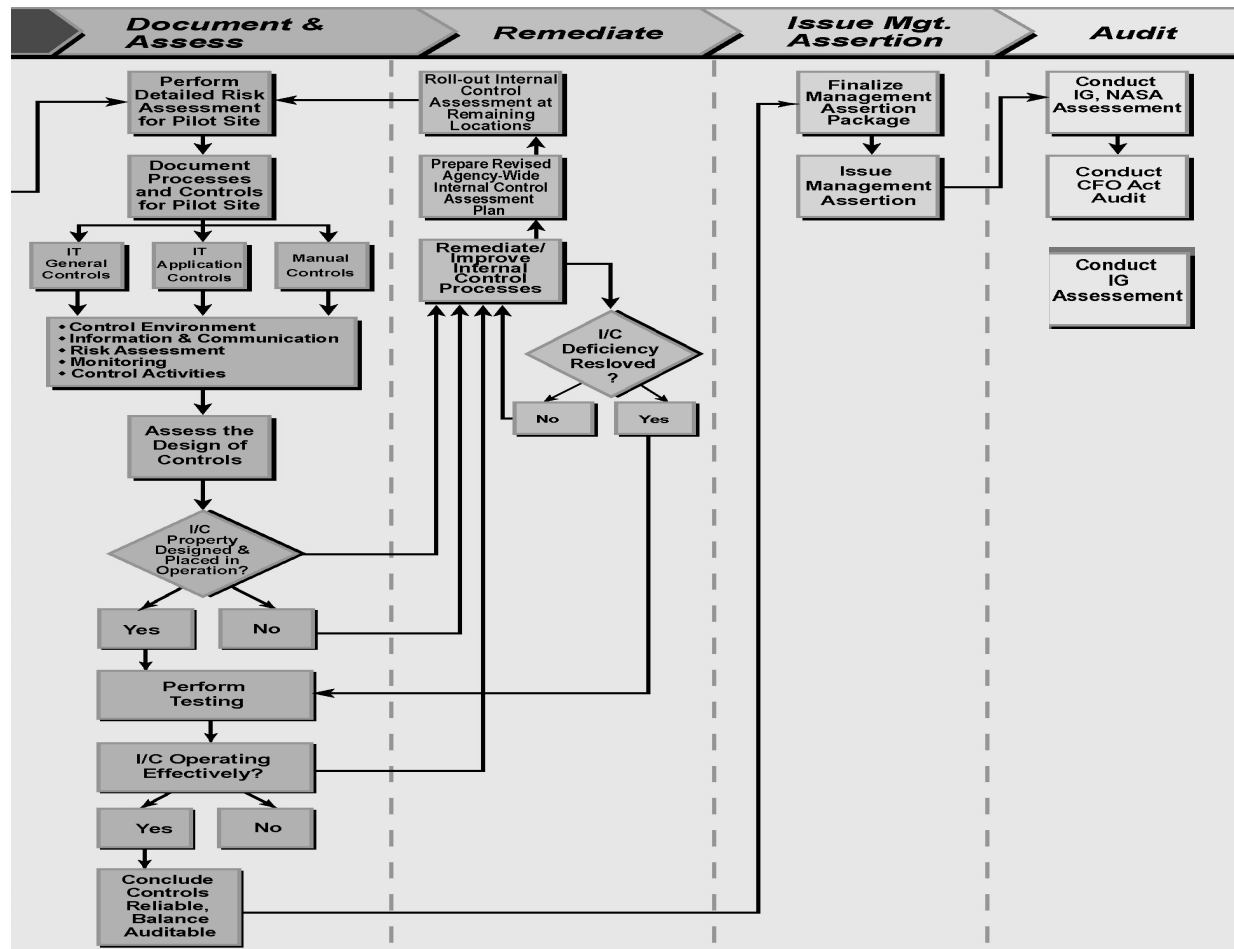
How? Phase One: Prepare Agency-Wide Internal Control Assessment Plan

- Defines Project Standards and a Consistent Approach for Performing Internal Control Assessments Across the Agency
- Typically Includes the Following Elements:
 - ◆ Prioritized list of locations for which an internal control assessment will be performed
 - ◆ Scope of the internal control assessment (based on the outcomes of the Agency-wide risk assessment) including:
 - The accounts and disclosures to be evaluated;
 - The business processes and sub-business processes to be documented; and
 - The financial and mixed systems to be reviewed
 - ◆ Standard methodologies and tools to be used throughout the effort
 - ◆ Detailed schedule of the activities to be performed including project milestones, activity durations, and key dependencies

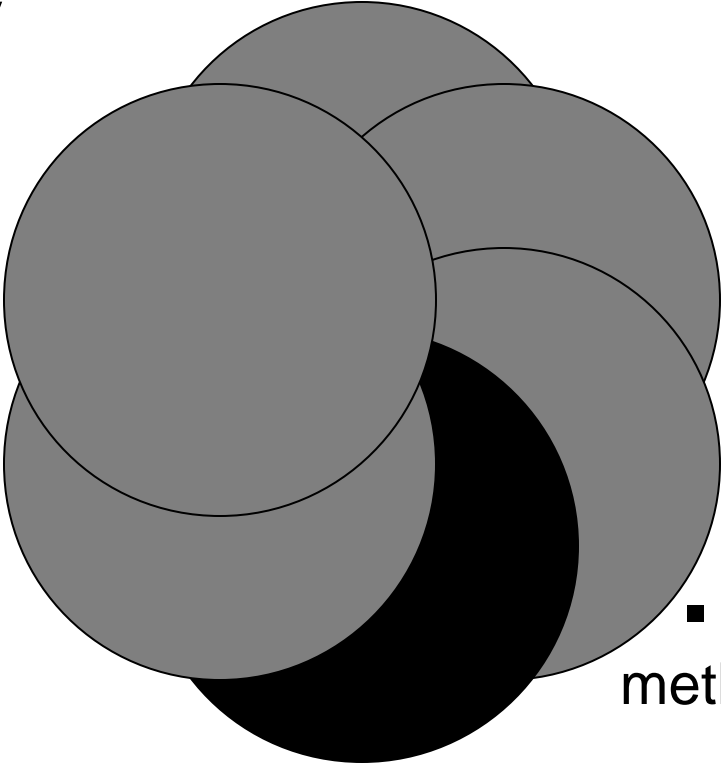
How? Important Management Judgments



Next Steps: Phase Two & Three Activities



Key Success Factors

- Sponsorship and communication
 - Understand key business risks, systems and processes
 - Utilize cross-functional team
 - Strong project management and oversight
 - Organization-wide methodology and training
 - Integrate and coordinate with other efforts
- 

Wrap-up and Questions